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DHS FOR OFFICE OF FIELD OPERATIONS, JAYSON AHERN, ASSISTANT
COMMISSIONER

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SUBJECT: AER LINGUS CEO DEBUNKS REPORTS ON AIRBUS DECISION

REF: DUBLIN 89

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¶11. (SBU) Summary: In a January 25 meeting with Charge and Emboffs, Aer Lingus CEO Dermot Mannion said that recent media reports on the airline's alleged plans to purchase Airbus aircraft were inaccurate. Mannion noted that, while a decision had not been made, Aer Lingus regarded two Airbus A330s as a good fit for urgent interim short-lift needs. This consideration was not linked to the airline's deliberation on longer-term, long-haul aircraft, and Boeing's 787 offer remained under serious consideration. Aer Lingus' long-haul aircraft decision was tied to progress on the airline's privatization, for which there was increasing public and media support. Labor opposed the move, however, due to concerns about the airline's pension deficit. Mannion noted separately that Aer Lingus, U.S. carriers, and Post shared interests in working with the Dublin Airport Authority (DAA) to resolve passenger congestion and other problems with U.S. Customs and Border Protection (CBP) pre-screening at Dublin and Shannon Airports. End summary.

Aircraft Procurement and Aer Lingus' Needs

¶12. (SBU) Recent publicity regarding Aer Lingus, decisions on aircraft procurement was inaccurate and premature, Aer Lingus CEO Dermot Mannion told Charge, Senior Commercial Officer, and Econoff in a January 25 meeting. (The January 22 Sunday Times had reported that the airline planned to sign a USD 400 million deal for four short-range Airbus A330s, presumably linked to a future purchase of as many as 14 long-haul Airbus A350s, rather than Boeing 787s.) Mannion committed to inform Post about any aircraft decisions ahead of the media. Aer Lingus, he said, had two stages of aircraft requirements: long-term (with deliveries no sooner than 2010-11), and interim lift needs. While stressing that a decision had not been made, Mannion observed that the "best option" at this point for the airline's urgent interim lift needs was to purchase two A330s for delivery in 2007. The two planes, he added, were valued at USD 200 million, with one-third of the value in GE engines. He said that Boeing had presented an interim lift proposal with its 777 model, which remained under consideration, at least formally. Mannion also indicated that difficulties, including with unions, related to switching fleets (which is mostly Airbus for Aer Lingus currently) would be an important part of the decision. When pressed, he said a final decision in favor of the interim A330s, if it is made, would not weaken the case

for a long-haul deal with Boeing.

13. (SBU) Mannion elaborated that, contrary to press reports, there was "no linkage" between this urgent interim need and the desire for the next generation of long-haul aircraft. He said that no long-haul decision had been made, that discussions with Boeing and Airbus were ongoing, and that the deal would stand on its own merits. He noted that the long-haul aircraft decision would not be made "until the way forward was clear" for privatizing Aer Lingus (now 85 percent government-owned). He observed that the government was making progress on privatization behind the scenes, despite negative pressure from several quarters. The Government, moreover, might give approval to the timing and structure of privatization (IPO vs. institutional placement) in as early as three weeks. Mannion was non-committal on a specific time frame for the decision on long-haul aircraft, pending a decision on the company's privatization, noting that fleet transition issues were difficult to pursue while privatization issues existed. He underlined that Aer Lingus management was slowly winning over the public and the media on the merits of privatization.

Pension Issues Weaken Labor Support on Privatization

14. (SBU) Airline labor was withholding consent to Aer Lingus, privatization, due partly to concerns about a pension deficit of several hundred million Euro, observed Mannion. Labor, he said, had downplayed the need for privatization as a revenue-generating mechanism to cover the pension deficit, arguing that the Government would cover the shortfall for a state-owned company like Aer Lingus. Mannion pointed out, however, that Aer Lingus could place a portion of cash proceeds from privatization under control of workers, trustees for pension purposes. He believed that this "cash now" solution would be more attractive to airline

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retirees (mostly living in Prime Minister Bertie Ahern's North Dublin constituency) than the vague hope of a Government pensions bail-out. Mannion added that, in any event, Ireland's major unions would not hold up pending "Social Partnership" negotiations on a new national wage-benchmarking agreement over the issue of Aer Lingus' privatization.

Working with Post/the Dublin Airport Authority on CBP Needs

15. (SBU) Separately, Mannion offered to work with Post and the Dublin Airport Authority (DAA) to address passenger congestion and other problems with U.S. Customs and Border Protection (CBP) pre-screening at Dublin and Shannon Airports. (Per reftel, in a January 19 meeting in Dublin, CBP officers requested expanded airport facilities for more complete screening procedures, while the DAA asked for more CBP personnel before making facility commitments.) Mannion noted that Aer Lingus' interests tracked with those of U.S. carriers in improving CBP operations at Dublin and Shannon to develop those airports as more convenient trans-Atlantic hubs. He added that CBP pre-screening would be an attractive selling point in Aer Lingus' efforts to expand service to/from the Persian Gulf, as a proportion of the passengers would proceed from Ireland to the United States. Mannion believed that the DAA's senior leadership understood CBP's value in boosting Aer Lingus' passenger volume, and he hoped that this point would not be "lost in translation" with DAA personnel involved in Dublin Airport's expansion plans.

KENNY